

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**ADMINISTRATIVE RULE  
FISCAL IMPACT STATEMENT**

**PROPOSED RULE:** 03-184

**DATE PREPARED:** Dec 8, 2003

**STATE AGENCY:** Family and Social Services Administration

**DATE RECEIVED:** Nov 5, 2003

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**Digest of Proposed Rule:** This rule amends 405 IAC 5-20 to add coverage and reimbursement limitations for psychiatric residential treatment facility (PRTF) services for children under 21 years of age.

The rule also adds 405 IAC 1-21 setting forth the reimbursement criteria for PRTF services. The changes to the rule describe coverage criteria, set out qualifications for Medicaid providers of PRTF services, define circumstances under which Medicaid will pay for reserving a bed in a psychiatric residential treatment facility, and describe Indiana Medicaid's PTRF reimbursement methodology.

**Governmental Entities:** *State Impact:* This rule adds psychiatric residential treatment facility services for individuals under the age of 21 as a Medicaid-covered service. State Medicaid expenditures for this service, estimated at \$91.0 M, are to be totally offset by federal Medicaid reimbursement in the amount of \$56.4 M and county reimbursement in the amount of \$34.6 M. Federal regulations require that any individual meeting the Medicaid eligibility criteria for PRTF services would be entitled to services upon implementation of the rule.

The state pays Property Tax Replacement Credits (PTRC) and Homestead Credits on the levy for the Children's Psychiatric Residential Treatment Services property tax fund. The gross levy reduction discussed below in the *Local Impact* section would cause a reduction in PTRC and Homestead Credit expenses. The total state savings is estimated at about \$2.6 M in FY 2004 and \$7.9 M per year thereafter.

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund which is annually supplemented by the state General Fund. Any savings of PTRC and homestead credit expenditures would ultimately benefit the state General Fund.

*Background Information:* According to the Office of Medicaid Policy and Planning (OMPP), in September 2002 the U.S. District Court, Southern District of Indiana, found in *Collins vs. Hamilton* that Indiana's Medicaid program violates federal Medicaid law by refusing to cover long-term residential treatment for Medicaid patients under the age of 21 for whom such mental health treatment had been found medically necessary by Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) screening examinations. The Seventh Circuit affirmed the lower court's decision on November 6, 2003.

Prior to the court decision, counties, through the county Offices of Family and Children, were responsible for 100% of the cost of psychiatric residential treatment services for children in the child welfare system. This rule

will allow the cost of PRTF services to be reimbursed under the Medicaid program. The state share of Medicaid expenditures is approximately 38%, and the federal reimbursement is approximately 62%. As provided in P.L. 224-2003 (the budget bill), the state share of the expenditures for PTRF services are to be paid with local dollars generated through the Children's Psychiatric Residential Treatment Services property tax levy in each county. The balance of the service expenditures made by the state would be reimbursed with federal funds. Consequently, county expenditures would be reduced to 38% of the cost of what the counties would have been responsible for otherwise.

Total expenditures are estimated by OMPP to be \$91.0 M. State share of this amount, 38%, would be \$34.6 M and would be provided by the counties. The balance, \$56.4 M, or 62%, is to be reimbursed with federal funds.

*Local Impact:* Counties historically have been responsible for the entire cost of care for children in the child welfare system receiving mental health services in psychiatric residential treatment facilities. This rule change in conjunction with provisions in P.L. 224-2003 make the counties responsible for payment of the state share of Medicaid expenditures, about 38% of the total expenditures for these services.

The annual cost to counties under the old practice is estimated at \$72.8 M. Under this rule, the cost to counties is estimated at \$34.6 M for a yearly savings of about \$38.2 M. Counties generate funding for this purpose through a property tax levy. The cost savings will reduce gross property tax levies by about \$38.2 M. The net levy reduction, after PTRC and Homestead credits are applied, is estimated at \$30.3 M.

**Regulated Entities:** This rule permits psychiatric residential treatment facilities that enroll as Medicaid providers to claim Medicaid reimbursement for services provided to individuals under the age of 21 who meet Medicaid's financial eligibility and medical necessity criteria. Participation in Medicaid is voluntary on the part of providers, however, they must meet the licensure and certification requirements of the Medicaid program.

**Information Sources:** Pat Nolting, OMPP, 232-4318.